



EXECUTIVE MEMBER DECISION

REPORT OF: Executive Member for Finance and Governance

LEAD OFFICERS: Director of Finance and Customer Services

DATE: 20/09/19

PORTFOLIO/S AFFECTED: Finance and Governance

WARD/S AFFECTED: All

SUBJECT: Extension of the Long Term Agreement (LTA) for the Council's Corporate Insurance Policies

1. EXECUTIVE SUMMARY

- 1.1 The Council is currently insured under a long term agreement (LTA) with Zurich Municipal (ZM). This agreement ends on 31 March 2020. The LTA provides an option to extend this agreement for a further two years from that date. ZM currently provides all the Council's insurance cover, with the exception of the terrorism and marine policies.
- 1.2 Under the LTA the annual premium for the casualty (Public and Employer Liability) and Motor policies and the claims handling charges are index linked. ZM use the Average Weekly Earnings (AWE) – Regular Pay – Whole Economy – 3 Month Average for the last quarter prior to the month of renewal. Anticipated claim numbers are also reviewed annually.
- 1.3 ZM have offered a 15% reduction on the base rate used to calculate all premiums (excluding the Engineering Inspection fee and Industrial & Commercial Properties policy) if we will agree to the two year extension with effect from 1 April 2020. This reduced rate would apply to the premium for the two year period of the extension. The main base values used for the premium calculations are the corporate and education property values, total employee numbers and payroll costs and motor vehicle numbers depending on the policy.
- 1.4 The table below sets out a comparison of the 2019/20 premium with the estimated 2020/21 and 2021/22 premiums with the discount accounted for, assuming there were no changes in the base value figures which were provided for the 2019/20 renewals, and applying a 3.9% AWE increase to the casualty premium and claims handling fees (AWE April to June 2019 is 3.9%). This also assumes there are no changes in Insurance Premium Tax or any other levies imposed by Central Government.

2019/20 Total Premium (baseline for comparison):	£1,296,040.71	
	2020/21	2021/22
15% Base Rate Reduction	£1,150,062.08	£1,180,599.41

- 1.5 Therefore the discount offered represents a saving to the Council of £145k in year 1 and £115k in year 2 compared to allowing the policy to renew at the current rates.

2. RECOMMENDATIONS

That the Executive Member:

- Approves the extension of the LTA with ZM for a further two years until 31 March 2022.

3. BACKGROUND

- 3.1 On 31 March 2020 the current insurance arrangements with ZM will have been in place for three years. The LTA provides the Council with an option to extend the LTA for a further two years, to 31 March 2022.
- 3.2 Following negotiations regarding the plus 2 year extension option ZM has made a final offer of a 15% base rate reduction (excluding the Engineering Inspection fee and Industrial & Commercial Properties premium) for the Council if we agree to the two year extension with effect from 1 April 2020. The base rate reduction would be applied to year 1 and year 2 of the extension. This is despite the recent large claim on the Property policy for the fire at St John's Church. This is the first large property claim that the Council has had since the 2017 tender.
- 3.3 The policy excesses applied to the Casualty policies have increased by the AWE index over the last three years. As an additional incentive to agree the LTA extension ZM will revert the excess to £25,000 and will not apply the AWE increase during the period of the extension.
- 3.4 If the policies were renewed with ZM at the 2019/20 base values and existing LTA base rates without any discount there would have been an increase of approximately £34,577.74 in year 1 and a further £35,926.27 in year 2.
- 3.5 If the LTA is extended at the 15% rate discount offered there would be a premium reduction of approximately £145,978.63 in year 1 and £115,441.30 in year 2 compared to the 2019/20 premium.
- 3.6 The local authority insurance market is still relatively limited. At the time of the last tender, in December 2017, there were two companies capable of providing the full package of the Council's insurance needs who submitted bids. There was a 38.8% difference in the overall evaluation scores between ZM and the second placed bidder, after taking account of the package discount offered by ZM for placing the main classes of business with them. A third company was entering the market at that time. They only quoted for the Property lot and three of the smaller policies. Their bids were significantly more expensive than the winning submission, particularly for the Property cover.
- 3.7 The Council's insurance brokers, Aon, have provided us with an Insurance Market Update Report. Their recent experience with local authority tenders has shown that competition remains strong in the Public Sector market. They consider that substantial savings are available to those authorities with good claims experience who are tendering since the market expanded from 2016/17 onwards. The report includes an anonymised high level summary of results from recent tenders that Aon has supported. This shows Metropolitan Borough and Unitary Councils making average savings of 21.3% on their premiums on either single insurance classes (casualty or property) or insurance packages however, this includes Council's that have achieved level terms or an increase. The Aon report is a high level document and is not designed as a detailed analysis of the insurer market changes. Whilst savings are evidenced in the sector upon tender in recent years underlying claims experience, risk management procedures and levels of excess for these Councils, and any changes in any of these areas since their previous tenders, will have been significant factors in influencing the successful tenderers prices compared to the premiums charged by previous providers'.
- 3.8 Aon do advise that the Public Sector market may change due to renewals of Insurance companies own insurances, (reinsurance). Once these renew and account has taken effect of

global insurance-back disasters premiums may increase although Aon advise that they are seeing no market wide evidence of this within the Public Sector upon tender.

- 3.9 The report does note that insurance tenders are a “blind” process, with insurers only having one chance to put forward their best bid (quality and price). For this reason it is difficult to foresee what the potential outcome may be at tender. Some insurers may act with caution, strictly underwriting on claims, market conditions and exposure. Others may target a specific geographic area, Council or type of Council. The big qualification Aon highlight with any saving is reasonable claims information and the availability of Property risk information and robust risk management and Aon would need to see this to be able to comment further. The report does note that there is more certainty dealing with holding insurers and ZM have invited us to retain them with the 15% discount that they have offered on all classes other than Engineering Inspection and the Industrial & Commercial Properties policy.
- 3.10 The Council has a good relationship with ZM and the extension would provide continuity for a further two years whilst the new Insurance team becomes familiar with the Council’s insurance requirements and claims experience.
- 3.11 Aon have also noted that large global losses, including Grenfell, have affected the capacity available for Property insurance and insurers are requiring more detailed information than previously to obtain cover and best pricing.
- 3.12 Three options are available to the Council.

- a. Agree the extension under the current LTA with ZM and benefit from the 15% discount on the premium base rate for 2020/21 and 2020/22.

This would maintain the existing relationship with ZM, avoiding the tender and transition costs. This would allow time for the results of the planned 2019/20 of the Property Inspection Regime and Lone Worker risk management reviews to be completed and any recommendations arising actioned. Additional risk management activity could also be undertaken such as thermographic surveys’ of higher risk properties. This would demonstrate the Council’s commitment to improving the risk management arrangements in place and minimising the risk and impact of claims arising in respect of these areas in advance of re-tendering in two years’ time.
(Recommended).

- b. Notify ZM that we will end the current LTA at the break point at 31 March 2020.

This would require the Council to commence the work in order to prepare the information required to re-tender for its insurance requirements from 1 April 2020. This would incur a cost of £5,000 for AON to provide support to the tender process. Additional staff time would also be required to prepare the information required to support the tender. This would create additional pressure on the team during September as they are also working with IT colleagues to implement an upgrade to the claims management software, which will go live in October and during the period up to the publication of the tender, when they are also familiarising themselves with the upgraded software.

- c. Self-insure for policies other than those which are statutory requirements. This would create an unacceptable level of unknown financial risk for the Council.

4. KEY ISSUES & RISKS

- 4.1 Under the Council Constitution and Financial Regulations the Council is required to have

adequate insurance cover in place. The current policies are due to expire on 31 March 2020 and there is a need to ensure that the relevant policies and cover is in place immediately after this date.

- 4.2 The preferred option protects the financial position of the Council against insurance rate increases, provided the Council claims experience does not deteriorate, and mitigates insurance risks and defers the costs associated with re-tendering the Council's insurance requirements for two years.

5. POLICY IMPLICATIONS

None

6. FINANCIAL IMPLICATIONS

The Council provides for the cost of the insurance premium in its Revenue Budget. Actual figures will not be known until after the annual renewal in February 2020.

The preferred option would generate a premium saving of £145,978.63 in year 1 of the extension and £115,441.30 in year 2 compared to the 2019/20 premium, based on the 2019/20 renewals base values

7. LEGAL IMPLICATIONS

Failure to maintain adequate and appropriate insurance cover will place the Council in breach of its legal responsibilities.

Without insurance cover all financial liabilities arising from litigation, claims, complaints etc would have to be borne directly by the Council.

The option to renew is contained within the existing contract with ZM.

8. RESOURCE IMPLICATIONS

None

9. EQUALITY AND HEALTH IMPLICATIONS

Please select one of the options below. Where appropriate please include the hyperlink to the EIA.

Option 1 Equality Impact Assessment (EIA) not required – the EIA checklist has been completed.

Option 2 In determining this matter the Executive Member needs to consider the EIA associated with this item in advance of making the decision. *(insert EIA link here)*

Option 3 In determining this matter the Executive Board Members need to consider the EIA associated with this item in advance of making the decision. *(insert EIA attachment)*

10. CONSULTATIONS

11. STATEMENT OF COMPLIANCE

The recommendations are made further to advice from the Monitoring Officer and the Section 151 Officer has confirmed that they do not incur unlawful expenditure. They are also compliant with equality legislation and an equality analysis and impact assessment has been considered. The recommendations reflect the core principles of good governance set out in the Council's Code of Corporate Governance.

12. DECLARATION OF INTEREST

All Declarations of Interest of any Executive Member consulted and note of any dispensation granted by the Chief Executive will be recorded and published if applicable.

VERSION:	1.0
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CONTACT OFFICER:	Colin Ferguson
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DATE:	30/08/19
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BACKGROUND PAPER:	None
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